

# **PYBUS PUBLIC MARKET FEASIBILITY ANALYSIS**

**PREPARED FOR:  
PORT OF CHELAN COUNTY**

**PREPARED BY:  
PROPERTY COUNSELORS**

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# I. INTRODUCTION AND SUMMARY

## INTRODUCTION

The Port of Chelan County is considering participating in the development of a public market building in Wenatchee. Such markets are important community gathering and economic revitalization tools in many other communities. The proposed Pybus Public Market would be developed in a renovated industrial building on the Columbia River in downtown Wenatchee. The Public Market would be the centerpiece of a public-private mixed-use development. The Port is interested in determining whether its participation in the project would generate a target return on its investment.

A private developer has proposed a development with a specialty hotel, residential, restaurants, and retail around a Public Market in the renovated Pybus Building. The developer is seeking public participation in the project. The Public Market element of the project would cost approximately \$5 million for property acquisition and renovation. The cost would be shared by the City of Wenatchee and the Port District. The City has secured funding from the federal government and the State through the Local Revitalization Fund (LRF).

The Port has hired Property Counselors to prepare a feasibility study to determine whether the project is financially feasible, whether the Port could receive an adequate return on investment, how the project can be defined to maximize its chances for success, and how the Port can structure its participation to protect its financial interests.

This report documents the results of the feasibility analysis. It is organized in six sections:

- I. Introduction and Summary
- II. Wenatchee Local Revitalization Fund Project
- III. Market Analysis
- IV. Project Description
- V. Investment Analysis
- VI. Recommendations

The major findings and conclusions are summarized in the remainder of this section.

# **SUMMARY**

## **WENATCHEE LOCAL REVITALIZATION FUND PROJECT**

The Pybus Public Market will be part of the Waterfront Redevelopment Area project for the City of Wenatchee. The Market will be the pioneering use in the Revenue Area and will be the catalyst for further development. Conversely, it will have to stand alone in early years and cannot look to other uses to act as a draw for the area.

The construction value for the Market estimated in the City's financial projections is higher than the current cost estimate for the project. The gross sales estimate is consistent with the financial projections in this analysis.

## **MARKET ANALYSIS**

The trade area for the Public Market includes a resident population of 110,000, with a high level of visitor activity in the summer months. Retail sales in Wenatchee and the trade area have declined during the past two years, but food and food service sectors have been stable.

Current retail vacancies and low market rents will put downward pressure on rents in the Pybus Public Market in the initial years.

The experience of other indoor public markets indicates there are successful markets in areas with similar sized or smaller trade areas. A 25,000-square foot indoor market building is smaller than markets in several other communities, but it would be large enough to accommodate 20 to 25 fresh food, specialty food, and food service vendors, enough to provide a diverse array of offerings, with some duplication and room for specialization.

## **PROJECT DESCRIPTION**

The basic concept for the Public Market is a large open hall with small fresh food, specialty food, and food service vendors as the starting point. One logical point of departure is the potential for a larger anchor tenant. A restaurant or brewpub would be an obvious anchor. If a suitable restaurant tenant weren't available, a heavily-programmed commons could also serve as a magnet for participants. The two concepts differ in their allocation of space, the investment required to finish the space, and the management of the space.

## Summary of Alternative Concepts (Square Feet)

	Anchor	Commons
Restaurant/Brewpub	5,000	
Vendors		
20 @ 500 square feet	10,000	
25 @ 500 square feet		12,500
Commons		5,000
Circulation/Other Shared	7,500	5,000
Storage	2,500	2,500
Total	25,000	25,000

The estimated cost for the Anchor Concept is \$5.1 million, and the estimated cost for the Commons Concept is \$4.8 million. The difference is due to the higher construction cost related to tenant improvements for an anchor restaurant.

## Capital Cost Estimate

	Anchor	Commons
Land Purchase	\$1,320,000	\$1,320,000
Construction Cost		
Building Demolition	125,000	125,000
Site Improvements	1,159,800	1,159,800
Building Shell	639,400	639,400
Interior Systems & Options	801,400	801,400
Interior Finishing (@ \$2)	50,000	50,000
Tenant Allowance		
Anchor (@ \$50)	250,000	0
Small Vendors (@ \$10)	100,000	125,000
Subtotal Construction	3,125,600	2,900,600
Soft Cost @ 20%	625,100	580,100
Total Capital Cost	\$5,070,700	\$4,800,700

## INVESTMENT ANALYSIS

It is assumed that the Port's role would to provide the site and building shell in return for a rental stream from the Market operations. The Port's participation could be structured as a net lease. The lessee, either the City or private operator, would make lease payments to the Port and assume responsibility for all maintenance of the building and grounds.

The Market will require three to five years to reach stabilized operations. There is likely to be an initial year or two of lease-up, and turnover in businesses in the years immediately after. The Port's lease payment could be lower in the initial years.

Initial rents are likely to be reduced somewhat as a result of current real estate and financial market conditions. Ultimately, the Market rents will be higher than prevailing rents in other retail buildings in the area, because the space for circulation, seating, and queuing is external to the vendors' leasable space.

	<b>Rental Rates</b>	<b>Avg. Sales Per SF</b>	<b>Monthly Sales</b>	<b>Monthly Rent</b>
Restaurant	\$25	\$500	\$210,000	\$10,500
Other Food Service	\$20	400	\$16,700	\$830
Specialty Food	\$15	300	\$12,500	\$625
Fresh Food	\$15	300	\$12,500	\$625
Non-Food	\$20	400	\$16,700	\$830
Non-Profit	\$15	300	\$25,000	\$1,250

The estimated revenue and expense in the fifth year of operation is summarized in the following table.

### Comparison of Stabilized Year Operating Income

	<b>Year 5</b>	
	<b>Anchor</b>	<b>Commons</b>
<b>Revenue</b>		
Rents	\$319,317	\$230,017
Common Area Charges	108,243	102,831
Day Stall Rents	20,296	60,887
Farmers Market Charges	4,871	4,871
Subtotal	452,727	398,606
Less Vacancy	22,636	19,930
Net Revenue	\$430,091	\$378,675
<b>Expenses</b>		
Personnel	\$92,743	\$139,114
Advertising/Events	5,520	11,041
Office Expense	11,041	11,041
Legal Professional	5,520	5,520
Insurance	11,041	11,041
Fees/Permits	1,104	1,104
Utilities	55,204	55,204
Contract Services	16,561	16,561
Supplies	5,520	5,520
Total Expense	\$204,255	\$256,147
<b>Net Income</b>	<b>\$225,836</b>	<b>\$122,529</b>

Rents are the largest source of revenue for both concepts. Rents are considerably higher for the Anchor Concept. However, that concept has higher construction costs and the risk associated with that. Common area charges are similar. Day stall rents are higher for the Commons Concept because of the greater amount of space available. On the expense side, the expenses for the Commons Concept are higher because of the higher

expenditures for marketing and programming. The net income is approximately 80% higher for the Anchor Concept.

It is assumed that the Port would receive a portion of the operating income equivalent to its pro rata share of the total capital cost of the project. The Anchor Concept achieves an average rate of return of 4.3% over the first 10 years and an internal rate of return of 5.5%. The Commons Concept achieves an average return of 2.4%, but a slightly negative internal rate of return. The cumulative value of the rental payments (including the residual) falls short of the initial investment.

Based on the stated assumptions, the Anchor Concept could provide a return to the Port that meets its target for this project of 4%. The return under the Commons Concept does not meet that target. There are a variety of risks to the Port under either concept.

**Market risk** is the risk that the project won't achieve the pace of lease-up or the rent levels that are projected. The market risk is significant. Current real estate markets and financial markets are challenging at this time. Experienced business people may not choose to expand or may abandon existing leases at this time. People trying to start new businesses may have difficulty finding financing. Further, the investment required to open a new restaurant or brewpub may be costly or unavailable in the current market. While the Anchor Concept has greater financial returns, the Commons Concept may be more achievable in the short term. It's also true that with improvements to the overall economy, the actual rents may greatly exceed the assumed rents.

**Construction risk** is related to the uncertainty over whether the project can be completed for the available budget. Renovation projects are particularly uncertain because of unforeseen conditions. The estimate for building improvements is \$1.5 million or \$60 per square foot. This is at the low end of a range of \$50 to \$100 per square foot mentioned by a Seattle developer involved in renovating industrial buildings of this type. At the same time, the estimate for site improvements notes that actual costs could be lower if construction costs continue to decline.

**Partnership risk** is the risk that public and private parties can deliver on their obligations. It is assumed that the City or a private contractor would operate the Market and make a lease payment to the Port. Until the relationship can be confirmed, there is risk that the project won't generate the income necessary to cover the Port's loan payment. Furthermore, changing financial conditions may impair the partners' ability to maintain their commitments. There are many examples of public-private partnerships where the private partner had financial difficulties and defaulted. There are ways to reduce this risk, with guarantees of the payments to the Port. Further, there may be additional partners that can assume some of the responsibility for the Market operations.

**Financial risk** is related to the ongoing financial obligations of the project. As market conditions change, project cash flow may fluctuate. As unforeseen maintenance and repair issues arise, there may be additional capital requirements. Generally, it's prudent to have reserves against future requirements.

## RECOMMENDATIONS

The Public Market project could be a valuable element in the revitalization of Downtown Wenatchee and a suitable investment for the Port. There are risks to the Port and other participants, and the Port should take the following steps to protect its investment:

1. The Port should work with other participants to refine the project budget.
2. The Port should work with other participants to confirm and refine the overall concept for the Market and to secure a commitment from an anchor tenant if possible. In the absence of a commitment from an anchor restaurant, planning should proceed with space allocated to a large commons that can be aggressively programmed to serve as a magnet for customers. The space can be converted in the future if needed for an anchor tenant or expansion of smaller vendors.
3. The Port should work with the other partners and groups of potential tenants to refine the floor plan for the vendor spaces and shared spaces.
4. The Port should work with partners to assure adequate area-wide improvements to provide attractive surroundings for the Market.
5. The Port should work with its partners to confirm arrangements for an operating entity. It is assumed that operations would be the responsibility of the City. But the operations could be overseen by another public agency (such as the Public Facilities District), a City operating department, or a contract partner, either public or private.

The preceding items should be commemorated in a Memorandum of Understanding.

6. The Port should structure its lease payment to approximate the payment stream identified in this report. A pro rata share of net income would provide an adequate income stream, but the Port could agree to a fixed payment stream, with low payments in the first three years, and stabilized payments thereafter with cost of living increases.
7. The Port can secure its position by structuring the ground lease as unsubordinated. Any loan made for improvements to the Market would be subordinate to the lease payment to the Port.
8. The Port shouldn't close on the purchase of the property until it has a Memorandum of Understanding with its partners for all of these issues.



## II. WENATCHEE LOCAL REVITALIZATION FUND PROJECT

The City of Wenatchee successfully applied for State funding under the Local Revitalization Fund (LRF) program. The program provides matching funds from State sources for incremental tax revenues collected as a result of new development in a designated Revenue Area. The City has identified the Waterfront as a Revenue Area. The Pybus Public Market is an element of the overall projected revitalization of the Waterfront area. We reviewed the City's LRF application to determine how the Market fits into the overall revitalization, and whether the assumptions about performance are consistent with the results of the feasibility analysis.

The key economic measures in the LRF application are construction value and gross annual taxable sales. The projected values for these measures are summarized by area in Table 1.

**Table 1**  
**Summary of Performance Measures**  
**Wenatchee Waterfront Revenue Area**

	Construction Value	Gross Annual Taxable Sales
<b>Total Project</b>		
Pybus	\$31,425,000	\$14,600,000
WWTP	8,000,000	0
Middle Node	53,188,650	11,080,969
North Node	9,900,000	0
South Node	5,446,800	2,500,000
Total	\$107,960,450	\$28,180,969
<b>Pybus Node Detail</b>		
Market	\$5,100,000	\$1,100,000
Other	26,325,000	13,500,000
Total	\$31,425,000	\$14,600,000

The Pybus Node represents 29% of the construction value and 52% of gross taxable sales for the entire Waterfront Revenue Area. More importantly, it is the only node with development projected to occur before 2012. Within the Pybus Node, the Market represents approximately 16% of construction value and 8% of gross taxable sales. The balance of development in this node is mixed-use, residential, office, retail, restaurant, and lodging. The Market is projected to be developed in 2010, with the other uses developed in 2011 and 2012.

The Market will be the pioneering use in the Revenue Area and will be the catalyst for further development. Conversely, it will have to stand alone in early years and cannot look to other uses to act as a draw for the area.

The assumed performance measures for the market itself were:

\$5.1 million construction value.

\$1.1 million taxable sales based on \$5.5 million gross sales.

The \$5.1 million construction value is approximately equal to the total capital cost estimated in Section III. However, the total capital cost includes land and soft costs. The construction value alone is currently estimated at approximately \$3.0 million.

The \$5.5 million gross sales figure is equivalent to approximately \$400 to \$440 per square foot of net rentable area. This figure is consistent with the financial projections in Section IV of this report.

## **III. MARKET ANALYSIS**

The market analysis considers the supply and demand conditions that will affect the performance of the project in terms of likely lease-up and supportable rents. The market analysis is described in this section in terms of:

Economic and Demographic Conditions and Trends

Retail Market Conditions

Farmers Markets and Public Markets

Conclusions

### **ECONOMIC AND DEMOGRAPHIC CONDITIONS AND TRENDS**

The primary customers of the Pybus Market will be residents of the two-county region (Chelan and Douglas counties) and visitors to the area. The economic conditions in the local area and the state of the local visitor industry are described below.

#### **EMPLOYMENT**

Agriculture is the largest single sector in the Chelan and Douglas County economy. As shown in Table 2, other major sectors include government, health care, retail, and accommodations/food services. While health care and government have average wages higher than the average for County employment as a whole, agriculture, retail, and accommodations/food services have wages that are lower.

**Table 2**  
**Chelan & Douglas County Employment 2008**

Industry	Chelan County		Douglas County	
	Average Employment	Average Annual Wage	Average Employment	Average Annual Wage
<b>TOTAL</b>	<b>39,242</b>	<b>\$31,493</b>	<b>10,561</b>	<b>\$27,915</b>
Agriculture, forestry, fishing & hunting	8,445	\$19,725	2,662	\$16,578
Mining	*	*	0	-
Utilities	*	*	0	-
Construction	2,056	\$37,404	648	\$34,904
Manufacturing	1,987	\$40,935	240	\$39,507
Wholesale trade	1,679	\$39,068	350	\$40,122
Retail trade	4,397	\$24,539	1,500	\$26,520
Transportation & warehousing	795	\$29,501	270	\$37,638
Information	427	\$37,508	62	\$40,312
Finance & insurance	712	\$45,401	173	\$36,003
Real estate & rental & leasing	497	\$22,738	87	\$25,151
Professional & technical services	803	\$36,538	217	\$17,825
Management of companies & enterprises	35	\$84,614	*	*
Administrative & waste services	721	\$23,434	209	\$17,825
Educational services	114	\$16,202	*	*
Health care & social assistance	4,727	\$48,674	570	\$28,246
Arts, entertainment, & recreation	545	\$14,747	357	\$17,592
Accommodations & food services	3,628	\$14,557	708	\$11,474
Other services, except public administration	1,050	\$18,920	277	\$14,356
Government	6,581	\$44,247	2,180	\$43,644
Not Elsewhere Classified	43	\$33,049	53	\$24,075

\* Not disclosed for confidentiality purposes.

Source: WA Dept. of Employment Security.

The 25 largest employers in Chelan and Douglas counties are listed in Table 3. Eight of the 25 largest employers are in the agriculture sector, while another 11 are in the government/education/health care sectors.

**Table 3**  
**Chelan & Douglas Counties**  
**25 Largest Employers List, September 2008**

<b>Company</b>	<b>Product/Service</b>	<b>FTE</b>	<b>PTE</b>	<b>Total # Employees</b>
Stemilt Growers, Inc.	Agriculture	1,363	971	2,334
Wenatchee Valley Medical Center	Healthcare	1,361	193	1,554
Central Washington Hospital	Healthcare	900	550	1,450
Wenatchee School District	Education	u/a	u/a	972
Dovex Fruit Company	Agriculture	250	475	725
Eastmont School District	Education	n/a	n/a	675
Chelan County PUD #1	Utilities	654	11	665
Chelan Fruit, Inc.	Agriculture	550	u/a	550
Chelan County Auditor's Office	County	478	61	539
McDougall & Sons, Inc.	Agriculture	308	223	531
Blue Star Growers	Agriculture	47	405	452
C & O Nursery	Agriculture	50	400	450
ALCOA	Manufacturing	420	u/a	420
North Central ESD	Education	61	341	402
Wenatchee Valley College	Education	220	154	374
Custom Fruit Packers	Agriculture	356	u/a	356
Blue Bird, Inc.	Agriculture	300	u/a	300
Campbell's Resort	Resort	75	200	275
Mission Ridge Ski Area	Recreation & Fitness	125	150	275
Douglas County Auditor's Office	County	192	62	254
WA State Dept. of Transportation	Transportation	225	7	232
Costco Wholesale	Retail	120	92	212
Pacific Aerospace & Electronics	Manufacturing	210	u/a	210
Cashmere Valley Bank	Finance	196	12	208
Lake Chelan Community Hospital	Healthcare	148	52	200

Source: Port of Chelan County.

Table 4 summarizes the State's projections of nonagricultural employment growth by sector for Chelan and Douglas counties. As shown in the table, the fastest growing sectors are projected to be construction, non-durable goods manufacturing, professional and business services, and education/healthcare.

**Table 4**  
**Annual Average Nonagricultural Wage and Salary Employment**  
**Estimated 2004 and Projected 2009 and 2014**  
**Chelan & Douglas Counties (in thousands)**  
**June 2006**

	Est. Emp. 2004	Est. Emp. 2009	Est. Emp. 2014	Avg. Annual Growth Rate 2004-2009	Avg. Annual Growth Rate 2009-2014
TOTAL NONFARM	36,100	39,500	41,500	1.8%	1.0%
NATURAL RESOURCES & MINING	100	100	100	0.0%	0.0%
CONSTRUCTION	2,400	2,800	3,000	3.1%	1.4%
MANUFACTURING	2,300	2,500	2,400	1.7%	-0.8%
Durable Goods	1,500	1,600	1,500	1.3%	-1.3%
Non Durable Goods	800	900	900	2.4%	0.0%
Food Manufacturing	500	500	500	0.0%	0.0%
WHOLESALE TRADE	1,600	1,700	1,700	1.2%	0.0%
RETAIL TRADE	5,500	6,000	6,100	1.8%	0.3%
TRANSPORTATION, WAREHOUSING & UTILITIES	1,100	1,200	1,300	1.8%	1.6%
INFORMATION	500	500	500	0.0%	0.0%
FINANCIAL ACTIVITIES	1,500	1,500	1,600	0.0%	1.3%
PROFESSIONAL & BUSINESS SERVICES	1,700	2,000	2,200	3.3%	1.9%
EDUCATION & HEALTH SERVICES	5,200	6,000	6,500	2.9%	1.6%
LEISURE & HOSPITALITY	4,700	5,100	5,200	1.6%	0.4%
OTHER SERVICES	1,100	1,200	1,300	1.8%	1.6%
GOVERNMENT	8,400	8,900	9,600	1.2%	1.5%
Federal Government	900	900	900	0.0%	0.0%
State & Local Government Other	3,300	3,500	3,700	1.2%	1.1%
Educational Services Government	3,700	4,000	4,400	1.6%	1.9%
Health Care & Social Assist. Government	500	500	600	0.0%	3.7%

Source: Washington State Department of Employment Security.

## POPULATION

Wenatchee is the largest of the cities in the two counties. It grew at an average annual rate of 1.2% per year from 2000 to 2009. The figures include only those households that maintain their primary residence in the area.

**Table 5**  
**Chelan & Douglas County Population**

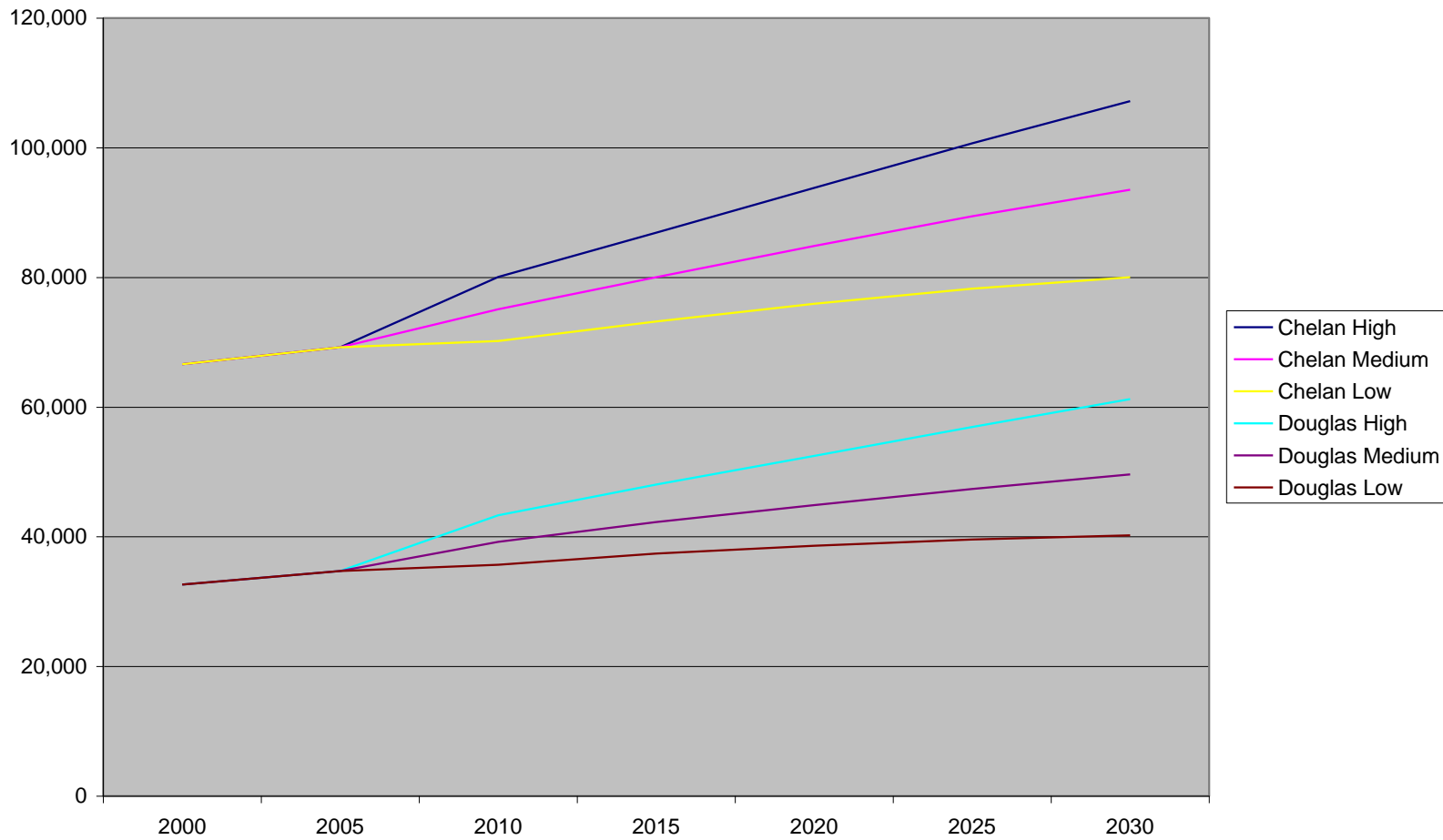
County Municipality	Census 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Avg. Ann. Growth
<b>Chelan</b>	<b>66,616</b>	<b>67,100</b>	<b>67,600</b>	<b>67,900</b>	<b>68,400</b>	<b>69,200</b>	<b>70,100</b>	<b>71,200</b>	<b>72,100</b>	<b>72,600</b>	<b>1.0</b>
Unincorporated	29,238	29,510	29,665	29,730	29,840	29,985	30,145	30,760	30,850	31,155	0.7
Cashmere	2,965	3,070	3,045	2,975	2,980	2,980	2,980	2,980	2,990	3,005	0.1
Chelan	3,526	3,535	3,535	3,600	3,645	3,680	3,755	3,835	3,995	4,010	1.4
Entiat	957	975	990	1,010	1,010	1,055	1,105	1,130	1,160	1,170	2.3
Leavenworth	2,074	2,080	2,095	2,115	2,165	2,180	2,195	2,225	2,295	2,300	1.2
Wenatchee	27,856	27,930	28,270	28,470	28,760	29,320	29,920	30,810	30,810	30,960	1.2
<b>Douglas</b>	<b>32,603</b>	<b>32,800</b>	<b>33,100</b>	<b>33,600</b>	<b>34,200</b>	<b>34,700</b>	<b>35,700</b>	<b>36,300</b>	<b>37,000</b>	<b>37,600</b>	<b>1.6</b>
Unincorporated	22,317	22,469	20,539	20,855	21,330	21,780	19,665	20,180	20,815	21,290	-0.5
Bridgeport	2,059	2,080	2,065	2,070	2,075	2,075	2,075	2,090	2,070	2,090	0.2
Coulee Dam <i>part</i>	125	125	176	175	175	175	175	175	175	175	5.8
East Wenatchee	5,757	5,770	7,965	8,140	8,255	8,300	11,420	11,480	11,570	11,660	8.2
Mansfield	319	321	320	320	325	325	325	330	330	330	0.4
Rock Island	863	865	860	865	870	875	865	865	865	875	0.2
Waterville	1,163	1,170	1,175	1,175	1,170	1,170	1,175	1,180	1,175	1,180	0.2

Source: Washington Office of Financial Management.

The combined population of the two counties is projected to grow to 143,000 by 2030 under the medium projection prepared by the Washington Office of Financial Management. As shown in Figure 1, the population is expected to fall in a range of 120,000 to 168,000 in that year.

The local trade area generally falls within a 30-mile radius of Wenatchee, extending north to Chelan and south to I-90. The current and projected population characteristics within a 10- and 30-mile radius are summarized in Table 6. As shown, population within each ring is projected to grow, with a faster growth in households. Household income levels and educational attainment show increases. The percentage of population in the 20–59 age group declines slightly with the natural aging of the population.

**Figure 1**  
**Projected Population Chelan and Douglas Counties**  
**OFM High Medium and Low**





**Table 6**  
**Local Area Population Characteristics**

	<b>10-Mile Radius</b>		<b>30-Mile Radius</b>	
	<b>2009</b>	<b>2014</b>	<b>2009</b>	<b>2014</b>
Population	59,617	63,466	105,005	109,072
Households	23,610	28,224	40,996	48,409
Pop. per Household	2.52	2.25	2.56	2.25
% HH Inc. > \$50,000	48.6%	52.9%	49.4%	53.6%
% Pop. with College Degree	29.4%	30.8%	27.9%	29.1%
% Pop. Age 20-59	51.5%	51.2%	51.4%	50.9%

Source: Washington Dept. of Commerce, Washington Prospector, GIS Planning.

## **VISITOR INDUSTRY**

The visitor industry is an important sector in the local economy. Dean Runyan Associates estimates that travel impacts represented 5,950 jobs in Chelan and Douglas counties in 2008. That figure would make the visitor industry second only to agriculture as a private employment sector. The importance of the visitor industry is reflected in the ranking of Chelan County among other counties in terms of travel spending in the county per county resident. Chelan County ranks fourth behind only San Juan, Skamania, and Klickitat County by this measure. Estimated spending by category in the two counties is summarized in Table 7.

**Table 7**  
**Chelan & Douglas County Visitor Spending – 2008**  
**(\$ millions)**

	<b>Chelan County</b>	<b>Douglas County</b>	<b>Total</b>
Accommodations	\$82.5	\$3.5	\$86.0
Food & Beverage	109.3	7.5	116.8
Food Stores	20.8	1.9	22.7
Ground Transportation	34.6	19.3	53.9
Arts, Entertainment, & Recreation	52.3	3.9	56.2
Other Retail	47.4	4.3	51.7
Air Transportation	0.3	0.0	0.3
Total Spending at Destination	\$347.2	\$40.3	\$387.6

Source: Dean Runyan Assoc. Washington State Travel Impacts – 2008.

With the exception of ground transportation related to car rentals at the airport, over 90% of the spending is in Chelan County. Seventy-eight percent of Chelan County spending is by travelers staying overnight in the area. Sixty-five percent of spending is by visitors staying in hotels.

Hotel room revenues are a good measure of the seasonality of visitor activity in the area. Figure 2 compares the percentage of annual hotel revenues by month for Wenatchee and all of Chelan County. Fifty-two percent of hotel room revenues in the County are generated in the three summer months. Wenatchee is somewhat more stable with 42% of revenues in the summer months. Extending visitor activity beyond the summer months is a strong objective in the community. A year-round Market would contribute to that end.

## **RETAIL MARKET CONDITIONS**

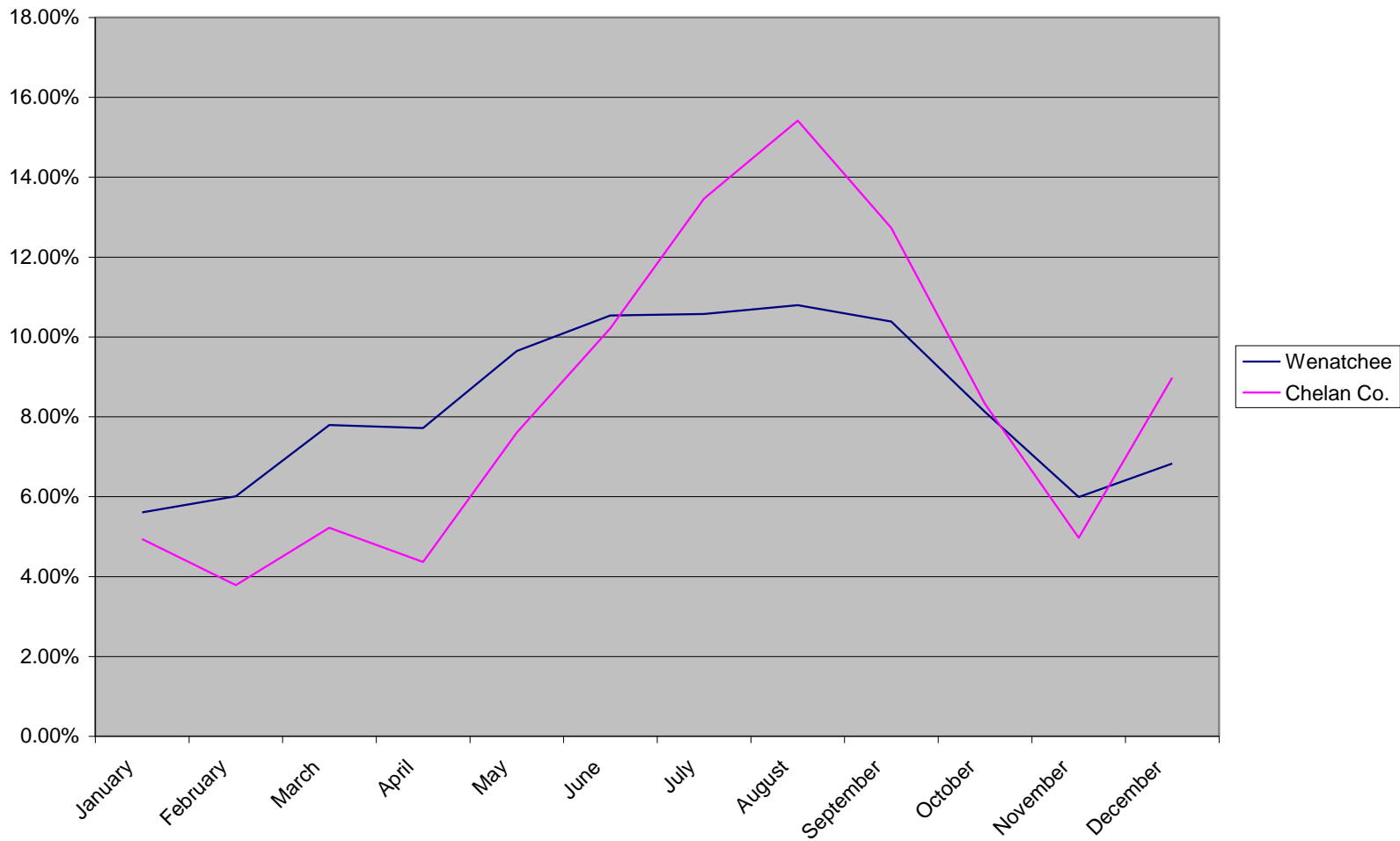
The proposed Pybus Market will be a retail and entertainment center. Many of the tenants will be retail businesses. This section identifies the current retail market conditions and trends that will affect demand for space in the Pybus Public Market.

### **RETAIL SALES TRENDS**

The city of Wenatchee has experienced strong growth in retail sales through 2007. Table 8 summarizes growth in taxable sales in retail trade and selected services. Taxable sales for retail trade dropped 7% from 2007 to 2008. Sales dropped 22% in the first six months of 2009 compared to the same period in 2008. There are still sectors showing strong growth, including electronics and appliances, drugs/health, and restaurants. Food sales have been relatively stable. The sectors showing the greatest declines are big-ticket items like autos, furniture, and building materials, but also apparel and general merchandise.

The city of Wenatchee has lost market share for the two-county region (Chelan and Douglas counties) as shown in Table 9. In particular, East Wenatchee has increased its share of many retail sectors. One exception is eating and drinking establishments, where Wenatchee has increased its share over the period.

**Figure 2**  
**Seasonality of Hotel Room Revenues 2008**



**Table 8**  
**Wenatchee Taxable Retail Sales Trends**

	2004	2005	2006	2007	2008	2008 Q1&2	2009 Q1&2	Avg. Ann. Gr. 2004-8	Ann. Gr. 2008-9
<b>Retail Trade</b>									
Motor Vehicles & Parts 441	93,604,164	96,637,437	105,328,425	107,640,560	92,144,240	51,837,061	37,020,643	-0.4%	-28.6%
Furniture & Home Furnishing 442	11,044,469	11,934,379	12,796,953	12,704,302	10,836,185	6,158,878	3,295,026	-0.5%	-46.5%
Electronics & Appliances 443	8,500,100	11,099,559	10,065,419	9,286,577	12,341,328	4,809,949	4,636,389	9.8%	-3.6%
Building Materials, Garden Equip & Supplies 444	61,298,611	73,480,734	81,653,712	81,226,288	71,329,394	39,101,351	30,508,024	3.9%	-22.0%
Food & Beverage Stores 445	21,475,120	21,621,290	23,577,588	24,246,336	23,284,246	11,853,671	11,217,132	2.0%	-5.4%
Drug/health Stores 446	3,790,552	5,104,762	5,502,825	6,956,474	7,987,032	3,901,942	4,135,343	20.5%	6.0%
Gas Stations & Convenience Stores W/pumps 447	5,816,417	4,612,310	5,197,721	3,789,117	3,388,870	1,782,139	1,540,045	-12.6%	-13.6%
Apparel & Accessories 448	12,763,205	13,237,073	14,409,662	15,054,502	13,819,162	7,810,114	5,964,350	2.0%	-23.6%
Sporting Goods, Toys, Book & Music Stores 451	16,740,084	17,122,717	16,985,637	16,955,470	17,808,111	9,406,917	7,863,553	1.6%	-16.4%
General Merchandise Stores 452	91,111,020	99,380,161	106,372,041	109,755,721	105,791,111	59,408,152	44,875,186	3.8%	-24.5%
E-commerce & Mail Order 4541	1,273,151	1,808,312	2,087,191	3,109,556	4,132,592	1,978,713	2,147,485	34.2%	8.5%
Miscellaneous Retailers 453, 4542, 4543	35,243,570	39,381,169	49,155,884	49,517,061	46,874,132	25,817,597	20,484,244	7.4%	-20.7%
Total:	362,660,463	395,419,903	433,133,058	440,241,964	409,736,403	223,866,484	173,687,420	3.1%	-22.4%
<b>Arts, Entertainment &amp; Recreation 71</b>	1,828,086	1,968,282	2,217,919	2,296,395	2,656,861	1,248,304	1,877,976	9.8%	50.4%
<b>Accommodations &amp; Food Services 72</b>									
Accommodations 721	16,735,689	16,152,974	17,864,457	20,625,799	20,701,921	10,287,592	9,166,487	5.5%	-10.9%
Restaurants, Food Services & Drinking Places 722	43,656,477	45,896,791	49,471,287	53,315,911	54,583,437	27,586,976	27,461,736	5.7%	-0.5%
Subtotal	60,392,166	62,049,765	67,335,744	73,941,710	75,285,358	37,874,568	36,628,223	5.7%	-3.3%
<b>Other Services 81</b>									
Repair & Maintenance 811	14,313,666	17,347,867	17,815,552	18,255,461	19,375,591	10,427,828	10,776,235	7.9%	3.3%
Personal Service 812	4,382,649	4,763,949	4,606,050	4,788,757	4,512,935	2,347,613	2,158,126	0.7%	-8.1%
Religious, Civic & Other Organization 813, 814	116,852	138,955	174,267	231,766	224,766	134,272	115,159	17.8%	-14.2%
Subtotal	18,813,167	22,250,771	22,595,869	23,275,984	24,113,292	12,909,713	13,049,520	6.4%	1.1%

Source: Washington Department of Revenue, Quarterly Business Review  
Property Counselors.

**Table 9**  
**Wenatchee Taxable Retail Sales as % of Total for**  
**Chelan & Douglas Counties**

	2004	2005	2006	2007	2008	2009 Q1&2
<b>Retail Trade</b>						
Motor Vehicles & Parts 441	50.4%	49.6%	48.2%	46.4%	46.4%	46.0%
Furniture & Home Furnishing 442	50.0%	48.1%	46.6%	43.9%	41.8%	33.8%
Electronics & Appliances 443	51.3%	53.6%	49.6%	47.8%	49.8%	44.9%
Building Materials, Garden Equip & Su	71.9%	72.8%	73.9%	68.9%	64.3%	66.7%
Food & Beverage Stores 445	39.2%	38.6%	38.2%	37.2%	35.0%	37.0%
Drug/health Stores 446	55.7%	54.6%	54.9%	57.9%	61.7%	63.2%
Gas Stations & Convenience Stores W/1	29.0%	22.5%	24.3%	17.1%	14.4%	14.1%
Apparel & Accessories 448	40.9%	49.4%	51.0%	52.1%	49.6%	51.1%
Sporting Goods, Toys, Book & Music S	61.9%	59.9%	61.0%	61.4%	61.7%	63.0%
General Merchandise Stores 452	49.5%	51.7%	51.6%	47.8%	46.4%	43.8%
E-commerce & Mail Order 4541	49.4%	47.3%	48.8%	51.2%	52.7%	54.5%
Miscellaneous Retailers 453, 4542, 454	48.0%	43.9%	47.1%	45.8%	45.6%	48.0%
Total:	51.1%	51.5%	51.5%	49.0%	47.7%	47.3%
<b>Arts, Entertainment &amp; Recreation</b>	10.0%	11.4%	11.0%	11.3%	12.7%	18.2%
<b>Accommodations &amp; Food Services</b>						
Accommodations 721	29.5%	27.3%	27.0%	28.0%	28.0%	34.4%
Restaurants, Food Services &	44.4%	44.2%	44.8%	44.5%	45.3%	49.1%
Subtotal	38.9%	38.1%	38.1%	38.2%	38.7%	44.3%
<b>Other Services 81</b>						
Repair & Maintenance 811	49.1%	53.6%	59.2%	58.3%	61.3%	75.2%
Personal Service 812	52.3%	53.4%	50.2%	48.6%	46.7%	45.9%
Religious, Civic & Other	8.8%	8.6%	9.7%	12.0%	12.9%	14.6%
Subtotal	48.4%	51.9%	55.0%	54.0%	56.1%	60.1%

Source: Property Counselors.

## **RETAIL LEAKAGE**

Retail sales in the two counties can be compared to resident spending to determine the extent to which local spending leaks outside the area. Table 10 summarizes the analysis. The positive numbers indicate leakage while the negative numbers indicate net attraction. In total, an estimated \$175 million in local resident spending leaks outside the two counties.

The analysis is based on a series of estimates and assumptions. The absolute numbers are very sensitive to these assumptions. For this reason, the results should be considered in comparative terms only. The key assumptions and estimates are the following:

- Taxable sales are converted to gross sales using average factors for statewide data.
- Visitor gross sales estimates from travel impact studies are subtracted from total sales to determine gross sales to residents.
- Spending by residents in the two counties is estimated by using statewide sales per household data adjusted for differences in income levels. While the local income is 80% of the state average, household spending is estimated to be 90% for many retail sectors and 95% for sectors such as food.
- Leakage is calculated as the difference between estimated resident spending and estimated sales to local residents.

The results are generally consistent with expectations with one exception. The figures indicate a large leakage in the Restaurants and Food Services sector. This results from the fact that estimated visitor spending is almost equal to total gross sales. This is not likely to be true. The estimate for visitor spending is likely significantly overstated.

**Table 10**  
**Estimated Retail Leakage Analysis**  
**Chelan & Douglas Counties – 2008**

	<b>Est. Gross Sales</b>	<b>Visitor Gross Sales</b>	<b>Resident Gross Sales</b>	<b>Est. Resident Spending</b>	<b>Leakage</b>
Motor Vehicles & Parts 441	248,354,585		248,354,585	218,674,145	(29,680,440)
Furniture & Home Furnishing 442	29,706,938		29,706,938	31,354,881	1,647,943
Electronics & Appliances 443	31,455,644		31,455,644	60,733,296	29,277,652
Building Materials, Garden Equip & Supplies 444	117,924,262		117,924,262	81,576,794	(36,347,467)
Food & Beverage Stores 445	254,982,293	22,700,000	232,282,293	210,283,904	(21,998,389)
Drug/health Stores 446	48,172,746	3,700,000	44,472,746	81,044,373	36,571,627
Gas Stations & Convenience Stores W/pumps 447	150,515,908	53,900,000	96,615,908	142,813,020	46,197,113
Apparel & Accessories 448	38,790,848	2,900,000	35,890,848	83,709,348	47,818,500
Sporting Goods, Toys, Book & Music Stores 451	33,396,118	2,500,000	30,896,118	35,968,839	5,072,721
General Merchandise Stores 452	424,445,849	32,100,000	392,345,849	286,046,224	(106,299,626)
Miscellaneous Retailers 453, 4542, 4543	140,836,235	10,800,000	130,036,235	127,815,226	(2,221,009)
Arts, Entertainment & Recreation 71	22,350,837	56,200,000	(33,849,163)	15,797,061	49,646,224
Restaurants, Food Services & Drinking Places 722	125,722,737	116,800,000	8,922,737	149,337,153	140,414,416
Repair & Maintenance 811	37,051,952		37,051,952	45,174,486	8,122,534
Personal Service 812	11,012,757		11,012,757	17,459,529	6,446,772
<b>Total</b>	<b>1,714,719,709</b>	<b>301,600,000</b>	<b>1,413,119,709</b>	<b>1,587,788,281</b>	<b>174,668,572</b>

Source: Property Counselors.

## SELECTED RETAIL SECTORS

Many of the likely tenants in the Pybus Market will be specialty foods and food service vendors. Sales data are not available for specific categories of food sales or food service. However, we did review the business listing with Dex Online for various categories of specialty foods to identify areas where the local retail market is under-represented.

**Meats and Fish.** There are no specialty meat or fish vendors listed for the area. These products are evidently purchased locally at supermarkets. There is an obvious opportunity here.

**Cheese Shop.** The only business listed in this category is Vitamilk. Again, there is an obvious opportunity.

**Wine.** There are four wine shops listed: three are local wineries, and only the Wine Bin has a range of offerings.

**Ice Cream.** There are six businesses listed, including national franchises (Baskin-Robbins and Orange Julius) and local businesses.

**Bakery.** There are 11 listings for bakeries, including the Food Pavilion. The bakeries include bread bakeries, bagel shops, and cookie bakers. There is a wide variety in this sector with opportunities for additional offerings.

**Health Foods.** There are several health food stores listed, including GNC in the East Valley Mall, drugstores, and Wenatchee Natural Foods. There may be opportunities in this sector.

**Coffee.** Most of the businesses listed under Coffee are coffee stands. There are few shops offering a range of coffee, tea, and accessories.

**Breweries/Brewpubs.** There are no breweries or brewpubs in Wenatchee. There are restaurants that serve a variety of craft beers, including McGlenn's Public House and Roaster and Ale House. The restaurant sector is very dynamic with frequent changes in operators and concepts. There are always opportunities for new entrants to the market.

The review of specific sectors does not quantify the demand for specific types of business but does suggest opportunities within several specialty food and food service categories.

## REAL ESTATE MARKET CONDITIONS

The Pybus Public Market will be a different retail space and experience from existing buildings in the area. However, prospective tenants will compare the market to other available retail space in making their location decisions. Existing market conditions are relevant to projecting the operating performance of the market.

There are no comprehensive inventories and vacancy statistics for the local retail market. The Wenatchee Downtown Association has done vacancy studies for Downtown in the past, but nothing recently. The association director estimates the Downtown retail vacancy rate to be 10% to 15%. Local real estate brokers affirmed this estimate. The rate was significantly lower two years ago. There is no current demand by national tenants, and most activity is relocation.

Retail rents were approximately \$20 per square foot per year in newer retail space in the area two years ago, but current rents in such centers are \$15 to \$16 per square foot triple net (NNN – tenant pays expenses). Examples include:

Starbucks Building	1925 N. Wenatchee	\$16 NNN
Mission Village	5 <sup>th</sup> & Mission	\$15 NNN
Building by Coffee Depot	9 <sup>th</sup> & N. Wenatchee	\$15 NNN
Petco Building	Valley Mall Parkway	\$14 - \$16 NNN

Even these rents are asking rents, and market rents may actually be lower.

Rents in Downtown are lower, at approximately \$8 per square foot.

Restaurant rents can vary greatly depending on the amount of improvements provided by the landlords. Real estate brokers mentioned a Downtown restaurant with \$10 per square foot NNN, but the tenant paid for all the improvements.

In summary, the local market is very soft at the present time, with higher than normal vacancies and reduced rents. These conditions will affect initial rental rates at the Pybus Market, but market conditions will improve as the economy recovers.



## **FARMERS MARKETS AND PUBLIC MARKETS**

The experience of markets in other communities provides some basis for estimating the performance of the proposed Pybus Public Market. The seasonal farmers markets elsewhere in the state suggest the potential for growth in the existing Wenatchee Valley Farmers Market. Public markets in other communities also suggest the potential for a year-round indoor market.

### **SEASONAL FARMERS MARKETS**

Seasonal farmers markets are an important source of fresh food items as well as a gathering place for local communities. The U.S. Department of Agriculture reports that the number of farmers markets in the United States grew from 1,755 in 1994 to 5,274 in 2009, a compound annual growth rate of 7.6%. The Washington State Farmers Market Association reports 114 markets among their members in this state.

Table 11 summarizes the characteristics of several farmers markets in Washington communities with populations greater than 20,000. Of the 26 markets listed, most markets are open one day per week. In several cases, such as the Wenatchee Valley, there are markets on other days as well (e.g., a Wednesday Market and Sunday Market). The Olympia Market operates the most days, Thursday through Sunday.

In most cases markets operate from June through September or May through October. Several, including Olympia and Bellingham, operate through December. Only Port Angeles operates year-round.

Most markets are open-air with awnings for individual vendor booths. Olympia, Puyallup, Bellingham, and Renton have buildings that provide weather protection for at least some of the vendors.

The largest farmers market in terms of number of vendors is Bellingham with over 100 vendors. Olympia and Everett have approximately 80 vendors, while Bellevue, Kirkland, Tacoma, and Walla Walla have 60 to 80 vendors each. Many of the markets have 35 to 50 vendors. All have a mix of vendors including farm products, prepared food, and arts/crafts.

The Wenatchee Valley Farmers Market has approximately 85 vendors, although not all are open every day. By contrast, Bellingham has 157 member vendors, with maximum capacity of 109. Bellingham vendor gross sales were approximately \$1.7 million for 2009. Gross sales in Wenatchee were \$307,000 in 2005 (more recent figures are being compiled). In summary, the local market is well established in terms of number of participating vendors. It has been hindered by the lack of a permanent location. Such a location and improved facilities would allow the Farmers Market to improve its vendor sales.

**Table 11**  
**Farmers Markets**  
**Cities with Population Over 20,000**

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Auburn International Farmers Market	Sunday 11-4	June-September
Bellevue Saturday Farmers Market	Saturday 9-2	June-November
Bellingham Farmers Market Downtown	Saturday 10-3	April-December
Bothell Farmers Market	Friday 12-6	June-September
Bremerton Farmers Market	Thursday 4-7	May-October
Burien Farmers Market	Thursday 11-6	May-October
Des Moines Waterfront Farmers Market	Saturday 10-5	June-October
Edmonds Museum Farmers Market	Saturday 9-2	May-October
Everett Farmers Market	Sunday 11-4	May-September
Kennewick Farmers Market	Thursday 9-1	June-September
Kent Farmers Market	Saturday 9-2	June-September
Kirkland Wednesday Farmers Market	Wednesday 2-7	May-October
Mercer Island Farmers Market	Sunday 11-3	June-October
Mount Vernon Saturday Farmers Market	Saturday 9-1	May-October
Mukilteo Farmers Market	Wednesday 3-7	June-September
Olympia Farmers Market	Thursday-Sunday 10-3	April-December
Port Angeles Farmers Market	Saturday 10-2	January-December
Puyallup Farmers Market	Saturday-Sunday 9-2	May-October
Renton Farmers Market	Saturday-Sunday 10-5	June-December
Richland Market on the Parkway	Friday 9-1	June-October
Seattle University District Farmers Market	Saturday 9-2	June-December
Spokane Farmers Market	Wednesday & Saturday 8-1	May-October
Tacoma Broadway Farmers Market	Thursday 9-2	May-October
Walla Walla Farmers Market	Wednesday 8-1	July-September
Wenatchee Valley Farmers Market	Saturday-Sunday 8-1	May-October
Yakima Farmers Market	Sunday 9-2	May-October

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## INDOOR PUBLIC MARKETS

Indoor public markets are much less common than seasonal outdoor markets but offer greater opportunities to the public and require greater investment by vendors. The Pike Place Market in Seattle is a famous facility with 290,000 square feet of commercial space, 900 vendors, 10 million visitors per year, and \$80 to \$100 million in annual sales. The characteristics of six smaller public markets are summarized in Table 12.

The **Eastern Market** serves the Capitol Hill area of Washington, DC. Approximately 32,500 people live in the area. The Market is owned and operated by the City.

The **Bellingham Everyday Public Market** is a privately owned facility in a former supermarket building. The market owner also operates the anchor tenant, a health food store.

The **Oxbow Market** in Napa, California, is a privately-owned facility opened in December 2007. The market serves local residents as well as the many visitors to the area.

**Granville Island** is another famous public market. The market building itself is only 40,000 square feet, but Granville Island features more shops, restaurants, and offices. The market is operated by a federal agency.

**Ferry Terminal Market** is a privately-owned retail center in the historic ferry terminal building in San Francisco. The non-profit Ferry Plaza Farmers Market operates in the adjacent plaza.

**Reading Market** has operated since 1893 in a historic building in Philadelphia. The market is operated by a not-for-profit corporation.

The characteristics of the markets can be compared as follows.

**Size:** The buildings range in size from 14,200 square feet to 78,000 square feet.

**Number of Vendors:** The number of vendors ranges from 8 to 80. In terms of vendors per thousand square feet, the range is 0.52 for Oxbow Market to 1.24 at Granville Island, with an average of approximately one vendor per thousand square feet.

**Mix of Vendors:** There are multiple restaurants/food service outlets at each market, in most cases the largest single tenant category. Specialty foods are also an important category with multiple vendors in most specialty categories.

**Configuration:** The markets range in configuration from a single double-loaded corridor in the Ferry Terminal Market to multiple-aisle (supermarket) configurations in Reading and Bellingham. Most markets are long rectangular buildings.

**Market Support:** The markets rely on a mix of local and visitor traffic. The Eastern Market generally serves residents of the local neighborhood. Eighty-five percent of Granville Island Market patrons are from the Metro Vancouver area. The Oxbow and Ferry Terminal Markets benefit from their local tourist areas.

**Rents:** Rents are relatively high on a per square foot basis, as approximately 30% to 50% of gross area is shared space for circulation, queuing, and seating. The developer/operator of the Oxbow and Ferry Terminal Markets estimates that supportable rents are equivalent to prevailing rents with an adjustment for the higher percentage of shared space. The experience of the Bellingham Market supports this relationship, with rents varying from \$12 to \$40 per square foot and averaging \$22. Including expenses and common area charges, the average rent is \$30 per square foot.

**Table 12**  
**Selected Indoor Public Markets**

<b>Location</b>	<b>Bellingham Public Market Bellingham WA</b>	<b>Eastern Market WA DC</b>	<b>Oxbow Market Napa CA</b>	<b>Granville Island Vancouver BC</b>	<b>Ferry Terminal Market San Francisco</b>	<b>Reading Market Philadelphia</b>
<b>Square Feet</b>	14,200	16,500	40,000	41,000	65,000	78,000
<b>Tenant Mix</b>						
Restaurant/Food Service	3	2	6	15	9	29
Coffee/Tea/Beverage	2		2	4	3	5
Wine			2		1	
Specialty Foods						
Bakery		1	1	4	1	6
Meat		4	2	7	3	7
Seafood		1	1	3	3	4
Cheese		1	1	2	1	4
Chocolate/Sweets	1		1	3	4	2
Ice Cream			1		1	
Herbs and Spice			1			
Other Specialty Foods			2	8	5	7
Market/Grocer	1	1			1	
Produce		2		2	3	4
Flowers		1		2		2
Health and Beauty						
Housewares, Books, Crafts			1		4	10
Other	1	1		1	1	
	8	14	21	51	40	80

## CONCLUSIONS

The results of the market analysis support the following conclusions:

1. The trade area for the Public Market includes a resident population of 110,000, with a high level of visitor activity in the summer months.
2. Retail sales in the local area have declined during the past two years, but food and food service sectors have been stable.
3. Current retail vacancies and low market rents will put downward pressure on rents in the Pybus Public Market in the initial years.
4. The experience of other public markets indicates that there are successful markets in areas with similar sized or smaller trade areas.
5. A 25,000-square foot indoor market building is smaller than successful markets in several other communities, but it would be large enough to accommodate 20 to 25 fresh food, specialty food, and food service vendors, enough to provide a diverse array of offerings, with some duplication and room for specialization.

## **IV. PROJECT DESCRIPTION**

The basic scope and character of the proposed project have been identified and generally understood by the potential public and private partners. There are options within the broad scope related to the allocation of interior spaces among tenants and common areas, the likely tenant mix, and nature of leased premises. The findings of the market analysis inform the refinement of these options. The various options are reflected in two facility concepts to be evaluated in the financial analysis. The facility description is presented in this section in terms of:

Interior Buildout

Shared Facilities

Tenant Size and Mix

Alternative Concepts

Capital Cost Estimate

### **INTERIOR BUILDOUT**

The basic concept for an enclosed Public Market is for a large open and active space that creates interest and serves as a destination. Accordingly, there are minimal demising walls. One market operator talks about the transparency of the market. Each tenant's area is visible to customers as well as other vendors.

An anchor tenant such as a brewpub or traditional restaurant would likely be partitioned off from the open area of the Market, but windows and entrances into the Market would increase the sense of activity in the restaurant and the Market.

The height of the building offers opportunities for loft space. Particularly in the case of the restaurant, a loft floor would accommodate additional seating or event seating. In the open area of the Market, loft space could be accommodated as well. It could also serve as seating to accommodate customers of the food vendors. Open loft seating would maintain the open and active feel of the space. Enclosed office space on a second floor may intrude upon this open feeling. For purposes of this analysis, no loft space is considered except within an anchor restaurant tenant.

### **SHARED FACILITIES**

Two types of shared facilities are important features of a public market: common public areas and shared storage and operational areas. Market operators stressed the importance of adequate storage. This includes both dry storage and refrigerated storage. In either case, lockers can be provided to offer some security to individual vendors.

The common public areas are a key component of public markets. Every market leases the vendor areas, with circulation, viewing, and queuing occurring in the common areas. Accordingly, the net rentable area is small in relation to the gross area of the building. The developers of the Ferry Terminal and Oxbow Market identified necessary common area as 30% to 50% of total building area.

Another typical use of common area is for gathering or event space. Such space can provide seating for food service vendors, informal gatherings, or special events like concerts or presentations. Third Place is a bookstore and community gathering place with two locations in the Seattle area. Similar to the developer's Crossroads Mall in Bellevue, the project serves as a popular commercial center and community gathering space (third place after work and home). The community space includes seating, a stage, and several food service businesses around the perimeter. The developer explains the Third Place Platform as:

- Right mix of retail uses (cafe, pub, etc.).
- Addition of civic spaces.
- Truly public space.
- Active placemaking/programming of space.
- Partnerships to utilize common facilities fully.

Overall, the space is intended to serve as a magnet for community members.

Elements of the Third Place concept are directly relevant to the potential of the Public Market.

- A 5,000-square foot commons, possibly supplemented with outdoor common space, would be a strong community magnet.
- The space would provide seating for food service operators (a minimum of four or five).
- The space should be heavily programmed to maximize utilization.

## TENANT SIZE AND MIX

The experience of the public markets described in the previous section provides some guidance here. As presented, the typical market has one tenant per thousand gross square feet. With net rentable areas at 50% of gross square feet, the 25,000-square foot building could accommodate 25 vendors at 500 square foot per vendor.

Project for Public Spaces published *Public Markets and Community Revitalization* in 1995 in conjunction with the Urban Land Institute. While much of the financial data is no longer current, the book provides a comprehensive look at the issues and opportunities

related to public markets. They identified a range of likely fresh food, specialty foods, and food service tenants. A typical tenant mix plan featured individual spaces of 300 to 800 square feet. They emphasized a goal of keeping the spaces small to maximize utilization and diversity of offerings. Further, they emphasized the importance of duplication, with three or more vendors in any particular category. Within categories, vendors will identify specialties.

In addition, day stalls offer an opportunity to expand offerings and provide options for vendors who can't commit to a lease. One hundred square foot day stalls can be set up within the common area at selected times.

## ALTERNATIVE CONCEPTS

The basic concept for the Public Market is a large open hall with small fresh food, specialty food, and food service vendors as the starting point. One logical point of departure is the potential for a larger anchor tenant. A restaurant or brewpub would be an obvious anchor. If a suitable restaurant tenant weren't available, a heavily-programmed commons could also serve as a magnet for participants. The two concepts differ in their allocation of space, the investment required to finish the space, and the management of the space.

The investment required to finish the space will be higher in the case of a restaurant tenant. Restaurant leases vary considerably in terms of tenant improvement allowances. With re-leasing of an existing building, often no allowance is offered. In the case of new buildings, an allowance is common. Third Place anticipates that they will have to provide a higher allowance to attract a local tenant to a restaurant space in a proposed project in Bremerton. A \$50 per square foot tenant allowance is common in such instances. The additional investment required for a larger commons would be minimal, perhaps as little as the cost of a simple stage.

The management of a heavily-programmed common area requires additional resources. In the case of the Third Place project in Lake Forest Park, a non-profit corporation was set up to program the commons. Funded by grants and memberships, the Friends of Third Place Commons has been successful in keeping the Commons active. In the absence of such an organization, the Market operator could assume responsibility, or possibly the City.

The differences between the space allocations in the two concepts are summarized in Table 13.



**Table 13**  
**Summary of Alternative Concepts**  
**(Square Feet)**

	<b>Anchor</b>	<b>Commons</b>
Restaurant/Brewpub	5,000	
Vendors		
20 @ 500 square feet	10,000	
25 @ 500 square feet		12,500
Commons		5,000
Circulation/Other Shared	7,500	5,000
Storage	2,500	2,500
Total	25,000	25,000

## CAPITAL COST ESTIMATE

The estimated capital cost for the two concepts is summarized in Table 14.

- The land purchase price is based on a preliminary estimate.
- The demolition cost for the building to the west is estimated at \$125,000.
- The site improvements were estimated by RH2 Engineering, Inc. (January 13, 2010). The estimate includes grading, water/sewer/stormwater, lighting, paving, and landscaping. The estimate includes sales tax but excludes indirect (soft) costs such as engineering, permitting, owner overhead, and other fees.
- The building shell and interior systems and options were estimated by PKJB Architectural Group. The estimates shown include sales tax. Engineering design and permits are not included.
- Interior finishes are estimated at a nominal level of \$2 per square foot. This will cover wallboard and paint for interior perimeter walls and frame.
- Tenant allowance is estimated at \$50 per square foot for a restaurant anchor and \$10 per square foot for the smaller vendors. The latter allowance is at the low end of the range for a new building, but the unimproved space is ready for display cases.
- Soft costs are estimated at 20% of hard construction costs. This is intended to cover design, permits, owner overhead, and leasing. No financing fees or interim interest are included.

As shown, the estimated capital cost is \$5.1 million for the Anchor Concept and \$4.8 million for the Commons Concept. These estimates can be refined as planning for the project proceeds.

**Table 14**  
**Capital Cost Estimate**

	<b>Anchor</b>	<b>Commons</b>
Land Purchase	\$1,320,000	\$1,320,000
Construction Cost		
Building Demolition	125,000	125,000
Site Improvements	1,159,800	1,159,800
Building Shell	639,400	639,400
Interior Systems & Options	801,400	801,400
Interior Finishing (@ \$2)	50,000	50,000
Tenant Allowance		
Anchor (@ \$50)	250,000	0
Small Vendors (@ \$10)	100,000	125,000
Subtotal Construction	3,125,600	2,900,600
Soft Cost @ 20%	625,100	580,100
Total Capital Cost	\$5,070,700	\$4,800,700

## V. INVESTMENT ANALYSIS

The results of the market analysis and the description of the facility provide the basis for projecting the economic performance of the proposed Market. The analysis addresses the performance of the Market as a whole and the financial impact to the Port of Chelan. The section is organized as follows:

Partnership Structure

Market Performance

Financial Projections

Rate of Return Analysis

Risk Analysis

### PARTNERSHIP STRUCTURE

There are at least four potential partners in the project.

- The Port as owner of the land and building shell.
- The City as owner of the interior improvements.
- A private party as property manager.
- A non-profit organization to manage and promote the community activities within the Market.

It is certainly possible for the City to fill all three of the latter roles. For purposes of this analysis, the assignment for those responsibilities is left unspecified. The Port would provide site and building shell in return for a rental stream from the Market operations.

The Port's participation could be structured as a net lease. The lessee, either the City or private operator, would make lease payments to the Port and assume responsibility for all maintenance of the building and grounds.

The Port's lease payment could be structured as a fixed payment with escalators over time, or as a percentage of the net income of the Market. In the latter case, the Port would collect a lower payment as the Market grows toward stabilized financial performance.

For purposes of this analysis, it is assumed that the Port will collect approximately 40% of the net income from operations. This reflects the Port's pro rata share of the original capital investment in the facility. In the final lease arrangement, the Port could choose to accept a fixed lease payment formula, with lower payments in initial years.

## MARKET PERFORMANCE

The results of the market analysis presented in Section III indicated that:

- The population base of the area and the visitor traffic are sufficient to support a Public Market with approximately 25,000 gross square feet.
- A Market of that size could accommodate 20 to 25 fresh food, specialty food, and food service vendors, enough to provide a diverse array of offerings, with some duplication but room for specialization.
- The food and food service sectors are among the strongest in the local economy, and there appears to be room for additional businesses in this sector.

Riverpark Plaza LLC, a private developer who has proposed a mixed-use development on the properties around the Pybus site, has contacted a variety of potential vendors for the project. While those contacts don't represent commitments on anyone's part, they do reflect a level of interest in the project.

In general, a Public Market will be most successful initially if its vendors are experienced in managing and operating a similar type of business. Such operators are more likely to obtain the necessary financing for the venture, adequately plan for the business needs, and overcome whatever unanticipated challenges occur. At the same time, the size of the spaces and the required level of investment will be within reach of many new businesses.

An anchor restaurant or brewpub will require the greatest level of investment on the part of both the landlord and the tenant. The tenant will undoubtedly require a significant debt and equity investment. In that respect, this tenant may present a greater level of market risk than some of the smaller vendors. However, if the Market can attract an adequately capitalized restaurant, it should provide a strong ongoing income stream.

For purposes of analysis, we have identified a tenant mix for the two building concepts as shown in Table 15. The amount of leasable area was described in the previous section. Other than the restaurant in the Anchor Concept, there are 10,000 and 12,500 square feet of small vendor space in the Anchor and Commons Concepts, respectively. The square footage is divided generally among the tenant types as follows:

Food Service	30%
Specialty Food	40%
Fresh Food	10%
Non-Food	10%
Non-Profit	10%

**Table 15**  
**Comparison of Tenant Roll for Alternative Concepts**

	Anchor	Commons
<b>Tenant Roll</b>		
Restaurant	5,000	-
Other Food Service	3,000	3,750
Specialty Food	4,000	5,000
Fresh Food	1,000	1,500
Non-food	1,000	1,250
Non-profit	1,000	1,000
Subtotal	15,000	12,500
Day Stalls (@ 100sf)	5	15
Day Stalls Days / Year	150	150

The non-profit is likely to be a food-related entity such as Community Connections. They currently operate a retail business and farm products subscription service in Downtown Wenatchee. They have expressed strong interest in locating within the Public Market.

The Wenatchee Valley Farmers Association is also interested in operating seasonally at the Pybus Market. The Farmers Market could rent the outdoor area around the building or operate as part of the Pybus Market itself. In either case, the Farmers Market will provide additional offerings to the public, increase the draw of the Market, and generate an additional rental income stream to the Market.

The shared public areas in the Market will accommodate a variety of activities including food service seating, seating for events, and community gathering space. In addition, the space can be used by non-permanent vendors in a day stall or movable cart format. The opportunities are significantly greater in the case of the Commons Concept. The figures in Table 15 reflect a commitment of 1,000 to 3,000 gross square feet of space for day stalls during selected times.

The Market will require three to five years to reach stabilized operations. There is likely to be an initial year or two of lease-up, and turnover in businesses in the years immediately after.

## FINANCIAL PROJECTIONS

Financial projections reflect the revenues generated and expenses incurred by the operation of the Market. The assumptions and results are presented below.

### ASSUMPTIONS

The primary sources of revenue are rents and common area charges. The rents are intended to cover the tenants' use of their rentable area, and the common area charges are

intended to cover tenants' pro rata share of expenses related to common areas, and pass-throughs of tenants' shares of other operating expenses. Table 16 summarizes the assumptions for rents.

**Table 16**  
**Revenue Rate Assumptions**

<b>Rental Rate (/sf/yr)</b>	
Restaurant	\$25.00
Other Food Service	20.00
Specialty Food	15.00
Fresh Food	15.00
Non-food	20.00
Non-profit	15.00
Day Stalls (/stall/day)	\$25.00
<b>Farmers Market Rent</b>	<b>\$4,500</b>
<b>Common Area Charges (/sf/yr)</b>	
Restaurant	\$5.00
Other Food Service	10.00
Specialty Food	7.50
Fresh Food	7.50
Non-food	5.00
Non-profit	2.50

The rental rates shown in the table are higher than the prevailing rental rates in the area. As presented in Section III, prevailing rents are approximately \$15 per square foot per year, triple net (tenant pays operating expenses). Rents in a public market exceed prevailing rents, often by a significant factor. The primary reason is that the net rentable area is only 50% to 70% of total area. The space for circulation, seating, and queuing is external to the vendors' leasable space. The developer/operator of the Oxbow Market and Ferry Terminal Market explains that supportable rents in a public market are equal to prevailing rents adjusted for the utilization factor. If prevailing rents are \$15, then supportable rental rates are \$21 to \$30 per square foot if shared spaces are 30% to 50% of total area.

Rents are closely, if not directly, related to vendor sales. In certain settings, these sales volumes are extremely high. The average sales per square foot for food courts in regional shopping malls was \$670 per square foot in 2007. Percentage rents varied from 6% to 10% of sales. Similarly, sales in kiosks in regional malls are as high as \$1,800 for jewelry and \$600 for telephone vendors.

Such rates would be ambitious for a Public Market in Wenatchee. The developer/operator of the Oxbow and Ferry Terminal Markets expressed strongly that percentage rents shouldn't exceed 5% for most tenants, based on his experience. Accordingly, the assumed rental rates are equivalent to the following performance measures.

	<b>Rental Rates</b>	<b>Avg. Sales Per SF</b>	<b>Monthly Sales</b>	<b>Monthly Rent</b>
Restaurant	\$25	\$500	\$210,000	\$10,500
Other Food Service	\$20	400	\$16,700	\$830
Specialty Food	\$15	300	\$12,500	\$625
Fresh Food	\$15	300	\$12,500	\$625
Non-Food	\$20	400	\$16,700	\$830
Non-Profit	\$15	300	\$25,000	\$1,250

The common area charges are intended to reflect the overall level of expenses and the extent to which vendor patrons use the common areas. The figures shown in the table fall in a range that is common in retail centers. The extent to which these rates are adequate to fund the Market's operating expenses is tested in this analysis.

The Farmers Market rents will be negotiated. The assumed rent is less than the \$13,000 rent paid to the City by the Bellingham Farmers Market.

The assumed expense factors are summarized in Table 17. The expense line items are organized according to the pro forma for a Market Building presented in *Public Markets and Community Revitalization* published by Project for Public Spaces and Urban Land Institute in 1995. The basis for each assumption is described below.

**Table 17**  
**Expense Assumptions**

<b>Expenses</b>	
<b>Personnel</b>	
Salaries	
Manager	\$40,000
Marketing	35,000
Clerical	15,000
Maintenance	15,000
Benefits	20.0%
<b>Advertising/Events</b>	\$10,000
<b>Office Expense</b>	10,000
<b>Legal Professional</b>	5,000
<b>Insurance</b>	10,000
<b>Fees/Permits</b>	1,000
<b>Utilities</b>	50,000
<b>Contract Services</b>	15,000
<b>Supplies</b>	5,000

**Salaries** are tied to the experience of the Bellingham Farmers Market. The salary of the manager is set at the level of the full-time manager there. The marketing position is specific to the Commons Concept.

**Benefits** are set at 20% of salaries to cover payroll taxes and a stipend for health coverage.

**Advertising and event services** expenditures are shown for the Commons Concept. The expenditure for the Anchor Concept is \$5,000. Spending for artist fees and equipment rental is comparable to the expenditure for Third Place Commons in Lake Forest Park.

**Insurance fees** are estimated based on expenditure factors from the Urban Land Institute (ULI) *Dollars and Cents of Shopping Centers*.

**Utilities** expenditures are estimated at \$2.00 per square foot per month based on factors from ULI.

**Contract services** include security services, grounds maintenance, janitorial, and snow removal.

**Office expenses and supplies** are intended to cover communications, bank charges, memberships, travel, etc.

Revenue and expense factors are projected to increase at an annual rate of 2%.

## **PROJECTED OPERATING INCOME**

The revenue and expenses for the Anchor and Commons Concepts are shown for the first five years in Tables 18 and 19, respectively.



**Table 18**  
**Projected Operating Income – Anchor Concept**

		Year 1	Year 2	Year 3	Year 4	Year 5
<b>Revenue</b>						
Rents		\$295,000	\$300,900	\$306,918	\$313,056	\$319,317
Common Area Charges		100,000	102,000	104,040	106,121	108,243
Day Stall Rents		18,750	19,125	19,508	19,898	20,296
Farmers Market Charges		4,500	4,590	4,682	4,775	4,871
Subtotal		418,250	426,615	435,147	443,850	452,727
Less Vacancy		83,650	42,662	21,757	22,193	22,636
Net Revenue		\$334,600	\$383,954	\$413,390	\$421,658	\$430,091
<b>Expenses</b>						
<b>Personnel</b>						
Salaries						
Manager	\$40,000	\$40,800	\$41,616	\$42,448	\$43,297	\$44,163
Marketing		-	-	-	-	-
Clerical	15,000	15,300	15,606	15,918	16,236	16,561
Maintenance	15,000	15,300	15,606	15,918	16,236	16,561
Subtotal		71,400	72,828	74,285	75,770	77,286
Benefits	20%	14,280	14,566	14,857	15,154	15,457
Subtotal Personnel		85,680	87,394	89,141	90,924	92,743
Advertising/Events	\$5,000	5,100	5,202	5,306	5,412	5,520
Office Expense	10,000	10,200	10,404	10,612	10,824	11,041
Legal Professional	5,000	5,100	5,202	5,306	5,412	5,520
Insurance	10,000	10,200	10,404	10,612	10,824	11,041
Fees/Permits	1,000	1,020	1,040	1,061	1,082	1,104
Utilities	50,000	51,000	52,020	53,060	54,122	55,204
Contract Services	15,000	15,300	15,606	15,918	16,236	16,561
Supplies	5,000	5,100	5,202	5,306	5,412	5,520
Total		\$188,700	\$192,474	\$196,323	\$200,250	\$204,255
<b>Net Income</b>						
		\$145,900	\$191,480	\$217,066	\$221,408	\$225,836

**Table 19**  
**Projected Operating Income – Commons Concept**

		Year 1	Year 2	Year 3	Year 4	Year 5
<b>Revenue</b>						
Rents		\$212,500	\$216,750	\$221,085	\$225,507	\$230,017
Common Area Charges		95,000	96,900	98,838	100,815	102,831
Day Stall Rents		56,250	57,375	58,523	59,693	60,887
Farmers Market Charges		4,500	4,590	4,682	4,775	4,871
Subtotal		368,250	375,615	383,127	390,790	398,606
Less Vacancy		73,650	37,562	19,156	19,539	19,930
Net Revenue		\$294,600	\$338,054	\$363,971	\$371,250	\$378,675
<b>Expenses</b>						
<b>Personnel</b>						
Salaries						
Manager	\$40,000	\$40,800	\$41,616	\$42,448	\$43,297	\$44,163
Marketing	35,000	35,700	36,414	37,142	37,885	38,643
Clerical	15,000	15,300	15,606	15,918	16,236	16,561
Maintenance	15,000	15,300	15,606	15,918	16,236	16,561
Subtotal		107,100	109,242	111,427	113,655	115,928
Benefits	20%	21,420	21,848	22,285	22,731	23,186
Subtotal Personnel		128,520	131,090	133,712	136,386	139,114
Advertising/Events	\$10,000	10,200	10,404	10,612	10,824	11,041
Office Expense	10,000	10,200	10,404	10,612	10,824	11,041
Legal Professional	5,000	5,100	5,202	5,306	5,412	5,520
Insurance	10,000	10,200	10,404	10,612	10,824	11,041
Fees/Permits	1,000	1,020	1,040	1,061	1,082	1,104
Utilities	50,000	51,000	52,020	53,060	54,122	55,204
Contract Services	15,000	15,300	15,606	15,918	16,236	16,561
Supplies	5,000	5,100	5,202	5,306	5,412	5,520
Total		\$236,640	\$241,373	\$246,200	\$251,124	\$256,147
<b>Net Income</b>		\$57,960	\$96,681	\$117,771	\$120,126	\$122,529

The results in Year 5 are compared for the two concepts in Table 20.

**Table 20**  
**Comparison of Stabilized Year Operating Income**

	<b>Year 5</b>	
	<b>Anchor</b>	<b>Commons</b>
<b>Revenue</b>		
Rents	\$319,317	\$230,017
Common Area Charges	108,243	102,831
Day Stall Rents	20,296	60,887
Farmers Market Charges	4,871	4,871
Subtotal	452,727	398,606
Less Vacancy	22,636	19,930
Net Revenue	\$430,091	\$378,675
<b>Expenses</b>		
Personnel	\$92,743	\$139,114
Advertising/Events	5,520	11,041
Office Expense	11,041	11,041
Legal Professional	5,520	5,520
Insurance	11,041	11,041
Fees/Permits	1,104	1,104
Utilities	55,204	55,204
Contract Services	16,561	16,561
Supplies	5,520	5,520
Total Expense	\$204,255	\$256,147
<b>Net Income</b>	\$225,836	\$122,529

Rents are the largest source of revenue for both concepts. Rents are considerably higher for the Anchor Concept. However, that concept has higher construction costs and the risk associated with that. Common area charges are similar. Day stall rents are higher for the Commons Concept because of the greater amount of space available. On the expense side, the expenses for the Commons Concept are higher because of the higher expenditures for marketing and programming.

The net income is approximately 80% higher for the Anchor Concept.

## **RATE OF RETURN ANALYSIS**

A portion of the net income shown under either concept is available as a lease payment to the Port. For purposes of the comparison, the lease payment to the Port is calculated as the Port's pro rata share based on its share of the initial capital costs. Assuming a Port investment of \$2,000,000, the Port's share would be 39% of investment in the Anchor Concept and 42% of investment in the Commons Concept.

Table 21 presents a comparison of the payment to the Port under either concept, and different measures of rate of return. The annual rate of return is calculated as the simple ratio of the annual payment to the initial investment. An average ratio over the first 10 years is shown in the table. The average ratio will increase in the years beyond the 10<sup>th</sup> year. The internal rate of return is a more sophisticated measure that weights initial years more heavily than future years. In order to reflect the impact of years beyond the 10<sup>th</sup> year, the 10<sup>th</sup> year income is capitalized at 4% to reflect the present value of the continuing income stream.

The Anchor Concept achieves an average rate of return of 4.3% over the first 10 years and an internal rate of return of 5.5%. The Commons Concept achieves an average return of 2.4%, but a slightly negative internal rate of return. The cumulative value of the rental payments (including the residual) falls short of the initial investment.

## **RISK ANALYSIS**

Based on the stated assumptions, the Anchor Concept could provide a return to the Port that meets its target for this project of 4%. The return under the Commons Concept does not meet that target. There are a variety of risks to the Port under either concept.

### **MARKET RISK**

Market risk is the risk that the project won't achieve the pace of lease-up or the rent levels that are projected. The market risk is significant. Current real estate markets and financial markets are both challenging at this time. Experienced business people may not choose to expand or may abandon existing leases at this time. People trying to start new businesses may have difficulty finding financing.

Further, the investment required to open a new restaurant or brewpub may be costly or unavailable in the current market. While the Anchor Concept has greater financial returns, the Commons Concept may be more achievable in the short term.

Market risk has both an upside and downside. The rents assumed in the analysis are intended to reflect current market conditions. With improvements to the overall economy, the actual rents may greatly exceed the assumed rents. The Market can capture these increases through percentage rents that provide relief to vendors during the initial years.

**Table 21**  
**Port Rate of Return Comparison**

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Residual
<b>Anchor Concept</b>												
Net Operating Income		\$145,900	\$191,480	\$217,066	\$221,408	\$225,836	\$230,353	\$234,960	\$239,659	\$244,452	\$249,341	\$6,233,528
Payment to Port	39%	57,546	75,524	85,616	87,328	89,075	90,856	92,673	94,527	96,417	98,346	2,458,646
Port Investment	\$2,000,000											
Total Investment	\$5,070,700											
Annual Return		2.9%	3.8%	4.3%	4.4%	4.5%	4.5%	4.6%	4.7%	4.8%	4.9%	
Average Annual Return	4.3%											
Internal Rate of Return	5.5%											
<b>Commons Concept</b>												
Net Operating Income		\$57,960	\$96,681	\$117,771	\$120,126	\$122,529	\$124,979	\$127,479	\$130,028	\$132,629	\$135,281	\$3,382,037
Payment to Port	42%	24,146	40,278	49,064	50,045	51,046	52,067	53,108	54,171	55,254	56,359	1,408,977
Port Investment	\$2,000,000											
Total Investment	\$4,800,700											
Annual Return		1.2%	2.0%	2.5%	2.5%	2.6%	2.6%	2.7%	2.7%	2.8%	2.8%	
Average Annual Return	2.4%											
Internal Rate of Return	-0.6%											

## **CONSTRUCTION RISK**

Construction risk is related to the uncertainty over whether the project can be completed for the available budget. Renovation projects are particularly uncertain because of unforeseen conditions. The estimate for building improvements is \$1.5 million or \$60 per square foot. This is at the low end of a range of \$50 to \$100 per square foot mentioned by a Seattle developer involved in renovating industrial buildings of this type.

At the same time, the estimate for site improvements notes that actual costs could be lower if construction costs continue to decline.

## **PARTNERSHIP RISK**

Partnership risk is the risk that public and private parties can deliver on their obligations. It is assumed that the City or a private contractor would operate the Market and make a lease payment to the Port. Until the relationship can be confirmed, there is risk that the project won't generate the income necessary to cover the Port's loan payment. Furthermore, changing financial conditions may impair the partners' ability to maintain their commitments. There are many examples of public-private partnerships where the private partner had financial difficulties and defaulted. There are also instances where public agencies experienced financial problems and chose to fund basic services over other obligations.

There are ways to reduce this risk. It is possible to guarantee the payments to the Port. Further, there may be additional partners like the not-for-profit Third Place Commons that can assume some of the responsibility for the Market operations.

## **FINANCIAL RISK**

Financial risk is related to the ongoing financial obligations of the project. As market conditions change, project cash flow may fluctuate. As unforeseen maintenance and repair issues arise, there may be additional capital requirements. Generally, it's prudent to have reserves against future requirements.

## VI. RECOMMENDATIONS

The analysis in the preceding sections supports the conclusions that:

- The project would contribute to revitalization of the immediate area and contribute to improved economic conditions in Downtown and the local area.
- The project could be self-sustaining on an operating basis with projected operating revenues covering costs.
- The project could support a payment to the Port that would provide a return of at least 4% on a \$2 million investment.

There are risks to the Port and other participants, and the Port should take the following steps to protect its investment:

1. The Port should work with other participants to refine the project budget, to confirm the scope of necessary work, review cost parameters, update the overall budget, and confirm the sharing of the total cost.
2. The Port should work with other participants to confirm and refine the overall concept for the Market. In particular, an anchor restaurant could help establish the Market as a destination and provide a strong income stream. The partners should work as quickly as possible to secure a commitment from an anchor tenant. Such a tenant must provide a complete business plan, evidence of financial commitment, and a letter of intent.

In the absence of a commitment from an anchor restaurant, planning should proceed with space allocated to a large commons that can be aggressively programmed to serve as a magnet for customers. The space can be converted in the future if needed for an anchor tenant or expansion of smaller vendors.

3. The Port should work with the other partners and groups of potential tenants to refine the floor plan for the vendor spaces. This exercise should refine layout and circulation, sizes and layout of vendor spaces, planning for shared storage, and seating. The planning should incorporate the use of outdoor spaces as well as the indoor Market.
4. The Port should work with partners to assure adequate area-wide improvements to provide attractive surroundings for the Market. These improvements should include improvements to Orondo with linkages to Downtown, street improvements along Worthen, and extension of Orondo past the Market entrance.
5. The Port should work with its partners to confirm arrangements for an operating entity. It is assumed that operations would be the responsibility of

the City. But the operations could be overseen by another public agency (such as the Public Facilities District), a City operating department, or a contract partner, either public or private.

The preceding items should be commemorated in a Memorandum of Understanding.

6. The Port should structure its lease payment to approximate the payment stream in the previous section. The analysis indicates that a pro rata share of net income would provide an adequate income stream, but a lease payment calculated as a percentage of net receipts can be very volatile. Alternatively, the Port could agree to a fixed payment stream, with low payments in the first three years, and stabilized payments thereafter with cost of living increases.
7. The Port can secure its position by structuring the ground lease as unsubordinated. Any loan made for improvements to the Market would be subordinate to the lease payment to the Port.
8. The Port shouldn't close on the purchase of the property until it has a Memorandum of Understanding with its partners for all of these issues.